



CITY OF LUNA PIER
Monroe County, Michigan
58-0010
ANNUAL FINANCIAL REPORT

June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF LUNA PIER	County MONROE
Audit Date 06/30/04	Opinion Date 10/19/04	Date Accountant Report Submitted to State: 12/10/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report by comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON CPA'S, PLLC			
Street Address ONE SOUTH MONROE STREET	City MONROE	State MI	ZIP 48161
Accountant Signature <i>Cooley Hehl Wohlgamuth & Carlton</i>			Date

CITY OF LUNA PIER

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Independent Auditor's Report

Honorable Mayor and
Members of City Council
City of Luna Pier
Luna Pier, Michigan 48157

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Luna Pier, Monroe County, Michigan management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 36 through 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and
Members of City Council
City of Luna Pier

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Luna Pier, Monroe County, Michigan basic financial statements. The comparative and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The comparative and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Cooley Hehl Wohlgemuth & Cauter".

October 19, 2004

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2004

This section of the City of Luna Pier's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the City's revenues and expenditures by program for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Fund.

The Governmental Accounting Standards Board (GASB) adopted this reporting model in *Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. GASB Statement No. 34 permits the omission of comparative information in the first year of adoption of the new reporting model and, considering the financial resources necessary to prepare the comparative information for the prior year, the City has elected to exclude the information in this report. Subsequent reports will include comparative information.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Luna Pier financially as a whole. The ***Government-Wide Financial Statements***, which include the Statement of Net Assets and the Statement of Activities, provide information about the activities of the City as a whole and presents both a short-term and a long-term view of those finances. The ***Fund Financial Statements*** provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The ***Fund Financial Statements*** report the City's operations in more detail than the ***Government-Wide Financial Statements*** by providing information about the City's most significant funds - the General Fund, the Major Street Fund, the Local Street Fund, the Special Road Fund, the Community Development Fund, the Debt Retirement Fund, the Flood Control Facilities Fund, the Fire Millage Fund, and the Waste Water Treatment Plant Fund. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the City acts solely as an agent for the benefit of the public. The following summary illustrates how the various parts of this annual report are arranged:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

Budgetary Information for Major Funds
(Required Supplemental Information)

Other Supplemental Information

CITY OF LUNA PIER

Management's Discussion and Analysis *Year Ended June 30, 2004*

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities (pages 10-12), which appear first in the City's financial statements, report information on the City as a whole and its activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the City's operating results. However, the City's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided and the safety of the public to assess the overall health of the City.

The Statement of Net Assets and Statement of Activities report the governmental activities for the City, which encompass all of the City's services, including general government services, public safety, public works, culture and recreation. Property taxes, state grants, and charges for services finance most of these activities.

Fund Financial Statements

The City's Fund Financial Statements (pages 13-20) provide detailed information about the most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to control and manage money for particular purposes or to show that it is properly using revenues. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as described below:

Governmental funds - Many of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the City and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation format in the financial section on pages 14 and 16.

Proprietary fund - A Proprietary Fund is used to account for business-type activities of the City which consists of the Waste Water Treatment Plant Fund. This fund accounts for services provided by the City where the City charges customers for the services it provides. This fund uses accrual accounting; the same method used by private sector business.

Fiduciary fund - An Agency Fund is used to account for assets held by the City as an agent for the collection and disbursement of property taxes.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2004

Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets as of June 30, 2004:

Table 1:

Condensed Statement of Net Assets June 30, 2004

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$1,644,715	\$ 214,430	\$1,859,145
Capital assets, net	<u>930,252</u>	<u>1,953,453</u>	<u>2,883,705</u>
Total Assets	2,574,967	2,167,883	4,742,850
Current and other liabilities	34,704	8,645	43,349
Long-term liabilities	<u>351,362</u>	<u>-</u>	<u>351,362</u>
Total Liabilities	<u>386,066</u>	<u>8,645</u>	<u>394,711</u>
Net Assets			
Invested in capital assets, net of related debt	678,292	1,953,453	2,631,745
Restricted for debt service	5,073	-	5,073
Restricted for capital projects	360,363	-	360,363
Unrestricted	<u>1,145,173</u>	<u>205,785</u>	<u>1,350,958</u>
Total Net Assets	<u>\$2,188,901</u>	<u>\$2,159,238</u>	<u>\$4,348,139</u>

As depicted in Table 1, the City's net assets were \$4.3 million at June 30, 2004. Of this amount, a positive \$1.3 million was unrestricted. This amount represents the *accumulated* results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities we could with our current resources. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the City as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for the fiscal year ended June 30, 2004.

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2004*

Government-Wide Financial Analysis - Concluded

Table 2:

**Changes in Net Assets
Year Ended June 30, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues			
Program revenues			
Charges for services	\$ 129,008	\$ 187,473	\$ 316,481
Federal and State grants	<u>182,820</u>	<u>-</u>	<u>182,820</u>
	311,828	187,473	499,301
General revenues			
Property taxes	861,451	-	861,451
State Grants	131,860	-	131,860
Other general revenues and transfers, net	<u>4,476</u>	<u>98,485</u>	<u>102,961</u>
	<u>997,787</u>	<u>98,485</u>	<u>1,096,272</u>
Total Revenues	1,309,615	285,958	1,595,573
Functions/Program Expenses			
Legislative	\$ 4,821	\$ -	\$ 4,821
General government	241,109	-	241,109
Public safety	305,612	-	305,612
Public works	319,117	-	319,117
Recreation and Cultural	33,908	-	33,908
Interest on long-term debt	3,896	-	3,896
Other	342,968	-	342,968
Waste Treatment Plant	<u>-</u>	<u>319,180</u>	<u>319,180</u>
Total Expenses	<u>1,251,431</u>	<u>319,180</u>	<u>1,570,611</u>
Increase (Decrease) in Net Assets	<u>\$ 58,184</u>	<u>\$ (33,222)</u>	<u>\$ 24,962</u>

As indicated in Table 2, the cost of *all governmental* activities this year was \$1.6 million. Of this amount, \$0.5 million was subsidized with revenue generated from charges for services and grants with the remaining costs financed with general revenues.

The City experienced an increase in net assets of \$24,962. The increase in net assets differs from the change in fund balance. A reconciliation of the change in fund balances to the change in net assets appears on page 14.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2004

Fund Financial Analysis

As noted earlier, the City uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the City of Luna Pier is being held accountable for the resources taxpayers and others provide to it and may give more insight into the City's overall financial health.

As the City completed this year, the funds accounting for the governmental activities reported a combined fund balance of \$1.6 million, which is a decrease of \$40,396 from last year. The changes by fund types are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Retirement Fund</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Fund balances - Beginning of year	\$341,868	\$918,216	\$5,756	\$385,860	\$1,651,700
Increase (decrease)	<u>4,343</u>	<u>(18,559)</u>	<u>(683)</u>	<u>(25,497)</u>	<u>(40,396)</u>
Fund balances - End of year	<u>\$346,211</u>	<u>\$899,657</u>	<u>\$5,073</u>	<u>\$360,363</u>	<u>\$1,611,304</u>

The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities of the General Fund.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Percent Change</u>
Revenues			
Property taxes	\$ 775,874	\$ 736,868	5.3 %
Licenses and permits	38,445	22,197	73.2 %
Federal Grants	78,356	109,442	(28.4)%
State grants	133,574	147,940	(9.7)%
Charges for services	33,101	25,880	27.9 %
Fines and forfeits	5,959	5,859	1.7 %
Interest	13,248	12,577	5.3 %
Rentals	52,435	45,243	15.9 %
Other	<u>63,727</u>	<u>51,937</u>	22.7 %
Total Revenues	<u>\$1,194,719</u>	<u>\$1,157,943</u>	3.2 %

CITY OF LUNA PIER

Management's Discussion and Analysis *Year Ended June 30, 2004*

Fund Financial Analysis – Concluded

Expenditures	June 30, 2004	June 30, 2003	Percent Change
Legislative	\$ 4,600	\$ 4,800	(4.2)%
General government	202,970	206,859	(1.9)%
Public safety	305,960	353,292	(13.4)%
Public works	203,405	209,732	(3.0)%
Recreation and cultural	32,579	31,583	3.2 %
Other	342,968	323,271	6.1 %
Operating transfers out	97,894	101,120	(3.2)%
	<u>\$1,190,376</u>	<u>\$1,230,657</u>	(3.3)%

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the City Council to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the City revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the City's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Revisions to the General Fund original budget were as follows:

Revenues - Although no revisions were made to the revenue budget of \$1,052,711, several factors impact the planning of it. The City relies heavily on property taxes to fund General Fund expenditures. Property taxes of \$775,874 (up \$39,000 from the prior year) make up 65% of the General Fund revenues. Consumers Power Company pays approximately 66% of the property taxes. Federal and State revenues which totaled \$211,930, (down \$45,400 from last year) represented approximately 18% of total revenues. Also during the 2003-04 fiscal year, the City realized an increase in permit fees as a result of raising the permit rates and an increase in building activity. The City also sold property for \$47,143. Projected reductions in state-shared revenues, the drop in interest rates, along with a modest increase in taxable value, cause the Council to have a very conservative outlook.

Expenditures - The original budget of \$1,196,647 had adjustments made within it during the year, specifically drawing from the prior year fund balance and increasing expenditures in the assessor department, the police department, recreation, insurances and the transfer to the Waste Water Treatment Plant Fund. During the 2003-04 fiscal year, there were no salary increases over the prior year. The City finished the reappraisal of all the property in the City in 2003-04 which cost the City \$27,500. Areas experiencing increases over the prior year were assessing (\$6,689), fire department (\$14,188), building inspection (\$4,684), general insurance (\$10,060), hospitalization (\$6,919), and employee buy out (\$10,000). Areas experiencing decreases over the prior year were clerk (\$6,414), treasurer (\$2,973), police (\$6,157), planning (\$5,382), benchmark and house raising (\$54,665), public works (\$5,933), and transfer to treatment plant (\$3,226). As a result of the City's efforts, the General Fund's fund balance increased this year by \$4,343 as opposed to a decrease in the prior year of \$72,214.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2004

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the City had \$5.7 million invested in a broad range of capital assets, including land, roads, land improvements, building and building improvements, machinery and equipment, vehicles, a waste water treatment plant and sewer lines. This amount represents a net increase (including additions and disposals) of approximately \$388,930 from last year. This year's additions of approximately \$390,595 included street construction, purchase of air packs for the fire department, and the purchase of a 2004 pumper fire truck for \$333,815. The pumper fire truck was financed by a loan through National City Bank. Depreciation for this year totaled \$111,610. Detailed information regarding capital assets is included in Note 8 to the financial statements.

Debt

At June 30, 2004, the City had \$281,810 in a contract liability and a loan payable. This includes a newly issued \$333,815 loan to purchase a fire truck. The loan for the fire truck will be repaid out of a voted property tax millage. The contract liability will be paid through water usage charges collected by the South County Water System. The City also has accrued a liability for unused vacation and personal days which totaled \$69,552 at June 30, 2004. Detailed information regarding the City's debt is included in Note 9 to the financial statements.

Development of the 2004-05 Fiscal Year Budget

Our elected officials considered many factors when setting the City's 2004-05 fiscal year budget. The City has taken several measures to help control the rising cost of the governmental services. For 2004-05, the City revised the health insurance program to help reduce the increase in costs, modified the pension plan to create a window for several employees to retire with an increased pension benefit, reduced the waste water treatment plant superintendent's position and the clerk and treasurer positions to part-time, and reduced the City Hall office hours. The City is attempting to sell off City owned real estate and is considering a study to review waste water treatment plant user charges. The City is in discussions with Mason Schools regarding the purchase of Luna Pier School in hopes of consolidating the City Hall, the police department, and the Library into one facility, which could lead to the eventual sale of the current facilities.

Contacting the City of Luna Pier

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the City Administrator, City of Luna Pier, 4357 Buckeye Street, Luna Pier, MI 48157.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LUNA PIER

Statement of Net Assets June 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$1,448,128	\$80,215	\$1,528,343
Accounts/loans receivable	108,269	128,923	237,192
Due from other governmental units	53,895	0	53,895
Internal balances	(665)	665	0
Prepaid expenses	35,088	4,627	39,715
Depreciable capital assets, net	930,252	1,953,453	2,883,705
Total Assets	2,574,967	2,167,883	4,742,850
Liabilities			
Accounts payable	17,985	8,645	26,630
Other liabilities	1,293	0	1,293
Deferred revenue	15,426	0	15,426
Long-term liabilities:			
Due within one year	96,775	0	96,775
Due in more than one year	254,587	0	254,587
Total Liabilities	386,066	8,645	394,711
Net Assets			
Invested in capital assets, net of related debt	678,292	1,953,453	2,631,745
Restricted for debt service	5,073	0	5,073
Restricted for capital projects	360,363	0	360,363
Unrestricted	1,145,173	205,785	1,350,958
Total Net Assets	\$2,188,901	\$2,159,238	\$4,348,139

See Notes to Financial Statements.

CITY OF LUNA PIER

Statement of Activities Year Ended June 30, 2004

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government -			
Governmental activities:			
Legislative	\$4,821	\$0	\$0
General government	241,109	91,039	0
Public safety	305,612	7,826	80,070
Public works	319,117	23,990	102,750
Recreation and cultural	33,908	0	0
Interest on long-term debt	3,896	1,958	0
Other	342,968	4,195	0
Total Governmental Activities	1,251,431	129,008	182,820
Business-type activities:			
Waste water treatment plant	319,180	187,473	0
Total business type activities	319,180	187,473	0
Total primary government	<u>\$1,570,611</u>	<u>\$316,481</u>	<u>\$182,820</u>

General Revenues:
 Property taxes
 State grants
 Gain on sale of assets
 Interest and investment earnings
 Other
 Transfers

Total general revenues & transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

See Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Assets
Primary Government

Governmental Activities	Business-type Activities	Total
(\$4,821)	\$0	(\$4,821)
(150,070)	0	(150,070)
(217,716)	0	(217,716)
(192,377)	0	(192,377)
(33,908)	0	(33,908)
(1,938)	0	(1,938)
<u>(338,773)</u>	<u>0</u>	<u>(338,773)</u>
(939,603)	0	(939,603)
<u>0</u>	<u>(131,707)</u>	<u>(131,707)</u>
<u>0</u>	<u>(131,707)</u>	<u>(131,707)</u>
(939,603)	(131,707)	(1,071,310)
861,451	0	861,451
131,860	0	131,860
45,478	0	45,478
21,173	591	21,764
35,719	0	35,719
<u>(97,894)</u>	<u>97,894</u>	<u>0</u>
<u>997,787</u>	<u>98,485</u>	<u>1,096,272</u>
58,184	(33,222)	24,962
<u>2,130,717</u>	<u>2,192,460</u>	<u>4,323,177</u>
<u><u>\$2,188,901</u></u>	<u><u>\$2,159,238</u></u>	<u><u>\$4,348,139</u></u>

FUND FINANCIAL STATEMENTS

CITY OF LUNA PIER

Governmental Funds
Balance Sheet
June 30, 2004

	Special Revenue Funds					Capital Project Funds			
	General Fund	Major Street Fund	Local Street Fund	Special Road Fund	Community Development Fund	Debt Retirement Fund	Flood Control Facilities Fund	Fire Millage Fund	Total Governmental Funds
Assets									
Cash and investments	\$344,832	\$373,449	\$177,160	\$59,090	\$120,448	\$5,073	\$363,105	\$4,971	\$1,448,128
Accounts/loans receivable	97	0	0	0	108,172	0	0	0	108,269
Due from other governmental units	53,895	0	0	0	0	0	0	0	53,895
Due from other funds	41,162	0	0	0	102,500	0	0	0	143,662
Prepaid expense	35,088	0	0	0	0	0	0	0	35,088
Total Assets	<u>\$475,074</u>	<u>\$373,449</u>	<u>\$177,160</u>	<u>\$59,090</u>	<u>\$331,120</u>	<u>\$5,073</u>	<u>\$363,105</u>	<u>\$4,971</u>	<u>\$1,789,042</u>
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$12,772	\$0	\$0	\$0	\$0	\$0	\$5,213	\$0	\$17,985
Due to other funds	100,665	15,276	25,703	0	183	0	0	2,500	144,327
Deferred revenue	15,426	0	0	0	0	0	0	0	15,426
Total Liabilities	128,863	15,276	25,703	0	183	0	5,213	2,500	177,738
Fund Balances									
Reserved for prepaid expenses	35,088	0	0	0	0	0	0	0	35,088
Reserved for noncurrent receivables	0	0	0	0	97,008	0	0	0	97,008
Reserved for debt service	0	0	0	0	0	5,073	0	0	5,073
Reserved for capital projects	0	0	0	0	0	0	357,892	2,471	360,363
Unreserved - designated for special projects	241,505	0	0	0	0	0	0	0	241,505
Unreserved - undesignated	69,618	358,173	151,457	59,090	233,929	0	0	0	872,267
Total Fund Balances	<u>346,211</u>	<u>358,173</u>	<u>151,457</u>	<u>59,090</u>	<u>330,937</u>	<u>5,073</u>	<u>357,892</u>	<u>2,471</u>	<u>1,611,304</u>
Total Liabilities and Fund Balances	<u>\$475,074</u>	<u>\$373,449</u>	<u>\$177,160</u>	<u>\$59,090</u>	<u>\$331,120</u>	<u>\$5,073</u>	<u>\$363,105</u>	<u>\$4,971</u>	<u>\$1,789,042</u>

See Notes to Financial Statements.

CITY OF LUNA PIER

*Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Year Ended June 30, 2004*

Total Fund Balances - Governmental Funds

\$1,611,304

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

The cost of the capital assets is

\$2,201,449

Accumulated depreciation is

(1,271,197)

930,252

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable

(29,850)

Loans payable

(251,960)

Compensated absences

(69,552)

Accrued interest

(1,293)

(352,655)

Total Net Assets - Governmental Activities

\$2,188,901

See Notes to Financial Statements.

CITY OF LUNA PIER

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2004

Special Revenue Funds

Capital Projects Funds

	General Fund	Major Street Fund	Local Street Fund	Special Road Fund	Community Development Fund	Debt Retirement Fund	Flood Control Facilities Fund	Fire Millage Fund	Total Governmental Funds
Revenues									
Taxes	\$775,874	\$0	\$0	\$0	\$0	\$0	\$0	\$85,577	\$861,451
Licenses and permits	38,445	0	0	0	0	0	0	0	38,445
Federal grants	78,356	0	0	0	0	0	0	0	78,356
State grants	133,574	63,802	38,948	0	0	0	0	0	236,324
Charges for services	33,101	0	0	0	0	0	0	0	33,101
Fines and forfeits	5,959	0	0	0	0	11,907	0	0	17,866
Interest income	13,248	1,981	850	362	2,275	0	0	0	18,716
Rentals	52,435	0	0	0	0	18	2,131	308	54,882
Other revenue	63,727	0	0	0	0	0	0	0	63,727
Total Revenues	1,194,719	65,783	39,798	362	2,275	11,925	2,131	85,885	1,402,878
Expenditures									
Current Operating:									
Legislative	4,600	0	0	0	0	0	0	0	4,600
General government	202,970	0	0	0	16,028	700	0	0	219,698
Public safety	305,960	0	0	0	0	0	0	0	305,960
Public works	203,405	31,999	78,250	500	0	0	0	334,729	640,689
Recreation and cultural	32,579	0	0	0	0	0	30,099	0	62,678
Other	342,968	0	0	0	0	0	0	0	342,968
Debt service	0	0	0	0	0	11,908	0	0	11,908
Total Expenditures	1,092,482	31,999	78,250	500	16,028	12,608	30,099	417,229	1,679,195
Excess (Deficiency) of Revenues Over Expenditures	102,237	33,784	(38,452)	(138)	(13,753)	(683)	(27,968)	(331,344)	(276,317)
Other Financing Sources (Uses)									
Proceeds from loan	0	0	0	0	0	0	0	333,815	333,815
Operating transfers in	0	0	51,306	0	0	0	0	0	51,306
Operating transfers out	(97,894)	(14,895)	0	(36,411)	0	0	0	0	(149,200)
Total Other Financing Sources (Uses)	(97,894)	(14,895)	51,306	(36,411)	0	0	0	333,815	235,921
Net Change in Fund Balances	4,343	18,889	12,854	(36,549)	(13,753)	(683)	(27,968)	2,471	(40,396)
Fund Balances - Beginning of year	341,868	339,284	138,603	95,639	344,690	5,756	385,860	0	1,651,700
Fund Balances - End of year	\$346,211	\$358,173	\$151,457	\$59,090	\$330,937	\$5,073	\$357,892	\$2,471	\$1,611,304

See Notes to Financial Statements.

CITY OF LUNA PIER

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2004*

Total Net Change in Fund Balances - Governmental Funds (\$40,396)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation expense	(\$53,122)	
Capital outlay	<u>390,595</u>	
		337,473

Net book value of assets sold reduces the gain on the sale of assets in the statement of activities; but does not reduce revenues reported in the governmental funds (1,665)

Accrued interest is recorded in the statement of activities when incurred; it is not reported in the governmental funds until paid (1,293)

Repayments of bond and loan principal is an expenditure in the governmental funds; but not in the statement of activities (where it reduces long-term debt) 98,101

Long-term debt issuance is reported as an other financing source in the governmental funds; but not in the statement of activities (where it increases long-term debt) (333,815)

Increases in the liability for compensated absences are reported as expenditures in the statement of activities; but not in the governmental funds (221)

Change in Net Assets of Governmental Activities \$58,184

See Notes to Financial Statements.

CITY OF LUNA PIER

*Proprietary Fund
Statement of Net Assets
June 30, 2004*

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Assets	
Current Assets:	
Cash	
Receivables	\$80,215
Due from other funds	128,923
Prepaid expenses	665
Total Current Assets	<u>4,627</u>
	214,430
Capital Assets	
Less: Allowance for depreciation	3,525,838
Total Capital Assets	<u>(1,572,385)</u>
	<u>1,953,453</u>
Total Assets	<u>2,167,883</u>
Liabilities	
Current Liabilities:	
Accounts payable	
	<u>8,645</u>
Total Liabilities	<u>8,645</u>
Net Assets	
Invested in capital assets, net of related debt	
Unrestricted	1,953,453
	<u>205,785</u>
Total Net Assets	<u><u>\$2,159,238</u></u>

See Notes to Financial Statements.

CITY OF LUNA PIER

*Proprietary Fund
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2004*

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Operating Revenues	
Charges for services	\$181,502
Permits	5,220
Penalties	751
Total Operating Revenues	187,473
Operating Expenses	
Sewer processing and maintenance	313,293
Administration	5,887
Total Operating Expenses	319,180
Net Operating Income (Loss)	(131,707)
Non-Operating Revenues (Expenses)	
Interest income	591
Net Income (Loss) Before Transfers	(131,116)
Transfers in	97,894
Change in Net Assets	(33,222)
Net Assets - Beginning of year	2,192,460
Net Assets - End of year	<u>\$2,159,238</u>

See Notes to Financial Statements.

CITY OF LUNA PIER

*Proprietary Fund
Statement of Cash Flows
Year Ended June 30, 2004*

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Cash Flows from Operating Activities	
Receipts from customers	\$184,999
Payments to suppliers	(144,912)
Payments to employees	(107,468)
Net cash provided by operating activities	<u>(67,381)</u>
Cash Flows from Noncapital Financing Activities	
Transfers in	97,894
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	0
Cash Flows from Investing Activities	
Interest income	<u>591</u>
Net Increase (Decrease) in Cash and Cash Equivalents	31,104
Cash and Cash Equivalents - Beginning of Year	<u>49,111</u>
Cash and Cash Equivalents - End of Year	<u><u>\$80,215</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income (loss)	(\$131,707)
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation	58,488
Changes in operating assets and liabilities	
Receivables	(2,475)
Prepaid expenses	(332)
Accounts payable	<u>8,645</u>
Net Cash Provided by Operating Activities	<u><u>(\$67,381)</u></u>

See Notes to Financial Statements.

CITY OF LUNA PIER

Agency Fund
Statement of Fiduciary Net Assets
June 30, 2004

	<u>Tax Collection Agency Fund</u>
Assets	
Cash	<u>\$1,000</u>
Liabilities	
Due to other governmental units	<u>\$1,000</u>

See Notes to Financial Statements.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2004*

Note 1 Description of the City and Reporting Entity

The City operates under a locally elected five member Council form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, recreation and culture, public improvements, planning and zoning, waste water treatment, and general administrative services.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. Component units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of taxes. The City has no component units.

The following entities are not included herein as they operate as autonomous units:

Luna Pier Housing Commission

This entity is responsible for the public housing project within the City. The Commission is responsible to the Department of Housing and Urban Development (HUD) for its fiscal management and HUD is responsible for the debt of the project which is not guaranteed by the City.

South County Water System

This is a joint venture between the City, LaSalle Township, Erie Township, Bedford Township, and the County of Monroe to provide water to these municipalities located within the County of Monroe.

Note 2 Summary of Significant Accounting Policies

The financial statements of the City of Luna Pier have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Council (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Council (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the City's accounting policies.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2004*

Note 2 Summary of Significant Accounting Policies (Continued) Basis of Presentation

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities which rely, to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenue include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. General revenue includes taxes, intergovernmental payments, sales of property, and other items not properly included among program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and agency funds, even though the latter are excluded from the government-wide financial statements. Major governmental funds and the individual enterprise fund are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Governmental fund expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

On the governmental funds statements, property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Agency fund statements also are reported using the economic resources measurement focus and the cash basis of accounting.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2004*

Note 2

Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. The General Fund accounts for all financial resources of the City, except those required to be accounted for in another fund.

The Major Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all major streets.

The Local Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all local streets.

The Special Road Fund accounts for proceeds from a tax millage for road improvements.

The Community Development Fund accounts for all monies received by the City from the block grant programs.

The Debt Retirement Fund accounts for monies used to pay general obligation bonds contractually liable by the City to the South County Water System.

The Flood Control Facilities Fund accounts for revenues and expenditures used for constructing and maintaining flood control facilities.

The Fire Millage Fund accounts for proceeds from a tax millage for a pumper fire truck and fire protection equipment.

The City reports the following major proprietary fund:

The Waste Water Treatment Plant Fund accounts for the operation of the waste water treatment plant financed through user charges and transfers.

In accordance with GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989, to its financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Waste Water Treatment Plant Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The City does not have any nonmajor governmental funds.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2004

Note 2 Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Tax Receivable - Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 and December 1 of the following year. Summer taxes are considered delinquent July 31 and Winter taxes are considered delinquent February 14 of the following year.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. sewer lines, road, etc.) are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Roads	20 years
Land Improvements	20 years
Buildings and Buildings Improvements	20-60 years
Machinery and Equipment	3-30 years
Vehicles	5-8 years
Sewer Lines	100 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net assets. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Accrued Liabilities and Long-Term Obligations - In the government-wide financial statements and proprietary fund financial statements, long-term debts, notes, and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types statement of net assets.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2004

Note 2

Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity (Concluded)

In general, payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Payments of long-term loans that are paid from governmental funds are recognized as an expenditure on the governmental fund financial statements when due.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

Interfund Transactions - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Reserves and Designations - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Compensated Absences - City employees are granted vacation and personal days under formulas and conditions in the employee's contract. The vacation and personal pay is accrued in the government-wide financial statements. In the fund financial statements, these accounts are reported when paid.

- D. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.
- E. Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.
- F. Budgetary Policies - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue Funds are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the City Council at the function level. Any budgetary modifications may only be made by the City Council.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2004

Note 2 Summary of Significant Accounting Policies (Concluded)
 Basis of Presentation (Concluded)
 F. Budgetary Policies (Concluded)

The City follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

1. Prior to June 30, the fiscal officer submits to the City Council a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. During the year the budget is monitored, and amendments to the budget deemed necessary are approved by the City Council.
5. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Lapsing of Appropriations - At the close of each year all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriations.

Note 3 Changes in Accounting Principles and Restatement of Fund Balance

Changes in Accounting Principles

For fiscal year 2004, the City has implemented Governmental Accounting Standards Council (GASB) Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*; GASB No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, GASB No. 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. At July 1, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2004*

Note 3 Changes in Accounting Principles and Restatement of Fund Balance (Concluded)

Restatement of Fund Balance

The restatements for GASB Statement No. 34 had the following effects on the transition from governmental fund balance to net assets of the governmental activities.

	Total Governmental <u>Activities</u>
Fund Balance June 30, 2003	\$1,651,700
GASB 34 Adjustments:	
Capital Assets, net of depreciation	594,444
Long-Term Liabilities	<u>(115,427)</u>
Governmental Activities Net Assets at June 30, 2003	<u>\$2,130,717</u>

Note 4 Stewardship, Accountability and Compliance

The City shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds. Even though not required by State Law, the City adopts budgets for the Debt Retirement Fund and the Capital Projects Funds.

In the required supplemental information, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis, which is the adopted legal level of control.

During the year ended June 30, 2004, expenditures exceeded final budgeted amounts in the following fund:

	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Fire Millage Fund	\$ 83,000	\$417,229	\$(334,229)

Note 5 Deposits

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the City may not be deposited in financial institutions located in states other than Michigan. The City Council has adopted an investment policy authorizing certain types of investments and has authorized one depository: National City Bank.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2004

Note 5 Deposits (Concluded)

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At June 30, 2004, the City had invested in such a fund with a local bank. The City is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Deposits are carried at cost. The carrying amount of deposits is separately displayed on the balance sheet as cash and certificates of deposit. The following is a summary of these deposits:

Carrying value of total deposits	<u>\$1,529,343</u>
Bank balance of deposits	\$1,538,832
Amount covered by FDIC	<u>100,000</u>
In uninsured and uncollateralized accounts	<u>\$1,438,832</u>

Note 6 Interfund Payables and Receivables

Such balances at June 30, 2004 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund:		
Major Street Fund	\$ 15,276	\$ -
Local Street Fund	25,703	-
Community Development Fund	183	100,000
Waste Water Treatment Plant Fund	-	665
Major Street Fund:		
General Fund	-	15,276
Local Street Fund:		
General Fund	-	25,703
Community Development Fund:		
General Fund	100,000	183
Fire Fund	2,500	-
Fire Millage Fund:		
Community Development Fund	-	2,500
Waste Water Treatment Plant Fund:		
General Fund	<u>665</u>	<u>-</u>
	<u>\$144,327</u>	<u>\$144,327</u>

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2004

Note 7 Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2004, consisted of the following:

	Transfers Out			Total
	General Fund	Major Street Fund	Special Road Fund	
<u>Transfers In:</u>				
Local Street Fund	\$ -	\$14,895	\$36,411	\$ 51,306
Waste Water Treatment Plant Fund	<u>97,894</u>	<u>-</u>	<u>-</u>	<u>97,894</u>
	<u>\$97,894</u>	<u>\$14,895</u>	<u>\$36,411</u>	<u>\$149,200</u>

The transfers from the Major Street Fund and the Special Road Fund to the Local Street Fund were for local street construction and maintenance. The transfer from the General Fund to the Waste Water Treatment Plant Fund was to help pay for operation of the waste water plant.

Note 8 Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental Activities				
Assets not being depreciated:				
Land	\$13,274	\$0	\$1,665	\$11,609
Capital assets being depreciated:				
Roads	0	35,490	0	35,490
Land improvements	251,468	0	0	251,468
Buildings and building improvements	704,276	0	0	704,276
Machinery and equipment	357,171	21,290	0	378,461
Vehicles	<u>486,330</u>	<u>333,815</u>	<u>0</u>	<u>820,145</u>
Total capital assets	1,812,519	390,595	1,665	2,201,449
Less accumulated depreciation:				
Land improvements	(156,309)	(8,598)	0	(164,907)
Buildings and building improvements	(317,327)	(14,161)	0	(331,488)
Machinery and equipment	(278,185)	(22,905)	0	(301,090)
Vehicles	<u>(466,254)</u>	<u>(7,458)</u>	<u>0</u>	<u>(473,712)</u>
Total accumulated depreciation	<u>(1,218,075)</u>	<u>(53,122)</u>	<u>0</u>	<u>(1,271,197)</u>
Net capital assets	<u>\$594,444</u>	<u>\$337,473</u>	<u>\$1,665</u>	<u>\$930,252</u>

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2004*

Note 8 Capital Assets (Concluded)

Depreciation expense was charged to governmental functions as follows:

General government	\$21,411
Public safety	20,028
Public works	10,354
Recreation and Cultural	<u>1,329</u>
 Total governmental activities	 <u>\$53,122</u>

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>
Business-type Activities (Waste Water Treatment Plant Fund)				
Assets not being depreciated:				
Land	\$6,500	\$0	\$0	\$6,500
Capital assets being depreciated:				
Treatment plant	1,911,425	0	0	1,911,425
Sewer lines	1,051,207	0	0	1,051,207
Machinery and equipment	540,226	0	0	540,226
Vehicles	<u>16,480</u>	<u>0</u>	<u>0</u>	<u>16,480</u>
 Total capital assets	 3,525,838	 0	 0	 3,525,838
 Less accumulated depreciation:				
Treatment plant	(649,589)	(46,064)	0	(695,653)
Sewer lines	(315,362)	(10,512)	0	(325,874)
Machinery and equipment	(532,466)	(1,912)	0	(534,378)
Vehicles	<u>(16,480)</u>	<u>0</u>	<u>0</u>	<u>(16,480)</u>
 Total accumulated depreciation	 <u>(1,513,897)</u>	 <u>(58,488)</u>	 <u>0</u>	 <u>(1,572,385)</u>
 Net capital assets	 <u>\$2,011,941</u>	 <u>(\$58,488)</u>	 <u>\$0</u>	 <u>\$1,953,453</u>

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2004

Note 9

Long-Term Debt

The following is a summary of long-term debt outstanding as of June 30, 2004:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Original Maturity Dates</u>	<u>Amount of Issue</u>	<u>Balance Outstanding</u>
Contract liability for: South County Water System: Phase III Improvements	4.750% - 4.875%	07/01/95	07/01/96-07	\$154,816	\$ 29,850
Loan Payable for: 2004 KME Pumper Fire Truck	3.080%	04/16/04	08/16/04-06	333,815	251,960
Other Liabilities: Compensated Absences Payable					<u>69,552</u>
					<u>\$351,362</u>

Changes in principal during the 2003-04 fiscal period are summarized as follows:

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>	<u>Due Within One Year</u>
South County Water System: Phase III Improvements	\$ 46,096	\$ -	\$16,246	\$ 29,850	\$ 9,950
2004 KME Pumper Fire Truck-Loan Payable	-	333,815	81,855	251,960	86,825
Compensated Absences Payable	<u>69,331</u>	<u>221</u>	<u>-</u>	<u>69,552</u>	<u>-</u>
	<u>\$115,427</u>	<u>\$334,036</u>	<u>\$98,101</u>	<u>\$351,362</u>	<u>\$96,775</u>

South County Water System Bonds - The City has joined with three other municipalities in contracting with the County of Monroe for the construction, financing and operation of a South County Water System. This project was financed by a federal grant and the issuance of County of Monroe bonds. These bonds are to be paid for out of the operating revenue of the water distribution system. However, should operating revenue be insufficient to retire the bonds and to pay the expenses of the system, the City is contractually liable for its pro-rata share of the deficiency.

As of June 30, 2004, the County of Monroe has one outstanding bond issue, proceeds of which have been used to construct the South County Water System. The City (based on its most current state equalized valuation) is currently liable for 7.107% of any debt retirement requirements that the South County Water System cannot meet.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2004

Note 9 Long-Term Debt (Concluded)

2004 KME Pumper Truck Loan Payable - On April 16, 2004, the City entered into a purchase agreement with National City Bank for the purchase of a 2004 KME pumper fire truck. The total purchase price was \$333,815. The loan terms included a principal payment of \$82,500 at closing followed by three (3) equal principal and interest payments of \$87,251 due annually commencing August 16, 2004. The interest rate is 3.08%. The City is financing this loan through a voted tax millage.

Compensated absences payable represents vested benefits for unused vacation and personal days under formulas and conditions specified in the employee's contract.

The annual requirements to pay principal and interest on the long-term debt outstanding at June 30, 2004 are as follows:

<u>Fiscal Years</u>	<u>Annual Requirements</u>
2005	\$ 98,641
2006	98,163
2007	<u>97,686</u>
	<u>\$294,490</u>

Note 10 Property Taxes

The City bills and collects its own property taxes and also taxes for the County of Monroe, State of Michigan, Monroe County Community College, Monroe County Intermediate School District, Mason Consolidated School District, and delinquent water bills for the South County Water System. Summer property taxes are billed on July 1 each year and collected by the City from July 1 to July 31. Winter property taxes are billed on December 1 each year and collected from December 1 to February 14.

The taxable valuation for both real and personal property as of December 31, 2002, amounted to \$83,672,569 which was based on a percentage of the fair market value of the assessed property. The 2003 tax roll consisted of the following:

	<u>General Operating</u>	<u>Fire Fund</u>	<u>Totals</u>
Mills	9.0658	1.0000	10.0658
Levy	\$758,555	\$83,669	\$842,224

Included within the boundaries of the City of Luna Pier is a Consumers Power Company electric utility plant. A breakdown of the 2003 levy between the Consumers Power Company and other property is as follows:

Consumers Power Company	\$559,118
Other	<u>283,106</u>
	<u>\$842,224</u>

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2004*

Note 11 Sewer Use Charge

Ordinance No. 67, as amended by Ordinance No. 90, Ordinance No. 145, and Ordinance No. 175 established a charge to customers for use of the City of Luna Pier Waste Water Treatment System based on unit factors. The Ordinance requires a charge of \$175 per unit as of June 30 each year. For these statements, on a fiscal year basis, the June 30, 2004 billing was recognized as revenue.

Note 12 Employee's Pension Plan
Plan Description

The City of Luna Pier is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System of Michigan (MERS), administered by the State of Michigan.

Benefit provisions and all other requirements are established by state statute and City council resolution. All full time City employees are eligible to participate in the system. Benefits vest after 10 years of service. Covered employees are eligible to retire at age 60 with 10 or more years of credited service or age 55 with 15 or more years of credited service or age 50 with 25 or more years of credited service. Monthly benefits are calculated by multiplying credited service at time of termination of membership by 2% of the member's three-year final average compensation. The retirement allowance is reduced $\frac{1}{2}$ of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. There is no mandatory retirement age. The system also provides death and disability benefits. Benefits are established by State statute and City Council resolution.

The Municipal Employees Retirement System of Michigan issues a publicly available financial report which may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48197.

Funding Policy

All full-time employees contribute 5% of their salary to the plan which amounted to \$24,511 for the fiscal year ending June 30, 2004. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by State statute. The City's annual required contribution was \$27,688 for the fiscal year ending June 30, 2004 (5.65% of covered payroll). The contribution requirements of plan members and the City are established by the City and by the MERS Council of Trustees.

Annual Pension Cost

For the fiscal year ending June 30, 2004, the City's annual pension cost of \$27,688 for the plan was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions include (a) 8.0% investment rate of return, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 4.16%, depending on age, attributable to seniority/merit and, (d) assumptions that benefits will increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 30 years.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2004

Note 12 **Employee's Pension Plan (Concluded)**
Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 5,875	100%	\$ -
6/30/03	31,063	100%	-
6/30/04	27,688	100%	-

Valuation Ended December 31,

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$2,331,901	\$2,370,117	\$2,537,930
Actuarial accrued liability (entry age)	2,268,144	2,909,550	3,038,973
Unfunded AAL	(63,757)	(539,433)	(501,043)
Funded ratio	103%	81%	84%
Annual payroll	489,124	479,095	496,253
UAAL as a percentage of annual covered payroll	0%	113%	101%

Note 13 **Contingent Liability**

The City of Luna Pier is subject to the Michigan Employment Security Act and would be liable for valid unemployment claims on a reimbursement basis. No provision has been made for this potential liability.

Note 14 **Lake Front Sewer Projects**

On March 11, 1988, the City of Luna Pier signed a contract with LaSalle City which specified that the City of Luna Pier will provide the capacity for treatment of the City's wastewater at the City of Luna Pier Wastewater Treatment Plant. Under the agreement, LaSalle City is responsible for the financing and construction of a portion of the expansion to the present system. As of June 30, 1991, the expansion of the system had been completed. The City of Luna Pier is responsible for the operation and maintenance of the system and LaSalle City is liable for a minimum annual usage charge of \$49,266. The City received a grant from the Environmental Protection Agency for \$1,190,300, which covered approximately 55% of the eligible costs relating to the expansion of the present system and the sewer lines in LaSalle City. Total costs of the project were approximately \$2,907,703, with the City of Luna Pier contributing \$130,000. Costs relating to the expansion of Luna Pier's system amounted to \$1,378,251.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2004*

Note 15 Health Care and Life Insurance

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees. Substantially all of the City's full time employees may become eligible for those benefits if they reach normal retirement age while working for the City. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing those benefits by expensing the annual insurance premiums, which were \$201,826 for the year ended June 30, 2004. \$63,614 of this yearly expense was for premiums for seven retirees.

Note 16 Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman's compensation). The City has purchased commercial insurance for property loss, torts, errors, omissions, and employee injuries.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF LUNA PIER

*General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2004*

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Taxes:				
Property taxes	\$759,256	\$759,256	\$757,814	(\$1,442)
Payment in lieu of taxes	10,000	10,000	16,597	6,597
Penalties and interest	1,000	1,000	1,463	463
	<u>770,256</u>	<u>770,256</u>	<u>775,874</u>	<u>5,618</u>
Licenses and permits:				
Building permits	8,000	8,000	21,096	13,096
Plan review fee	0	0	3,810	3,810
Plumbing permits	1,000	1,000	2,763	1,763
Parking and launching permits	1,100	1,100	2,203	1,103
Electrical permits	1,500	1,500	4,918	3,418
Mechanical permits	1,000	1,000	3,505	2,505
Other	100	100	150	50
	<u>12,700</u>	<u>12,700</u>	<u>38,445</u>	<u>25,745</u>
Federal grants:				
FEMA grant - housing	0	0	30,000	30,000
FEMA grant - fire department	0	0	19,440	19,440
COPS grant	15,000	15,000	28,916	13,916
	<u>15,000</u>	<u>15,000</u>	<u>78,356</u>	<u>63,356</u>
State grants:				
State shared revenue	140,000	140,000	131,860	(8,140)
Police grant	0	0	885	885
Liquor license fees	800	800	829	29
	<u>140,800</u>	<u>140,800</u>	<u>133,574</u>	<u>(7,226)</u>
Charges for services:				
Tax administration fee	20,000	20,000	24,149	4,149
Cablevision fee	4,000	4,000	4,757	757
Bed tax - Super 8	3,000	3,000	0	(3,000)
Fringe benefit recovery	6,525	6,525	4,195	(2,330)
	<u>33,525</u>	<u>33,525</u>	<u>33,101</u>	<u>(424)</u>
Fines and forfeits	4,000	4,000	5,959	1,959
Interest income	3,000	3,000	13,248	10,248

CITY OF LUNA PIER

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2004

Revenues(Continued)	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Rentals:				
Equipment rental	\$36,200	\$36,200	\$23,990	(\$12,210)
Building rental	5,000	5,000	7,350	2,350
Bath house rental	0	0	200	200
City hall rental	0	0	3,000	3,000
Truck terminal lease	1,200	1,200	7,695	6,495
AT&T tower land lease	9,000	9,000	10,200	1,200
	51,400	51,400	52,435	1,035
Other revenue:				
Donations	4,000	4,000	7,761	3,761
Police forfeitures	0	0	1,867	1,867
Sale of land	0	0	47,143	47,143
Other revenue	18,030	18,030	6,956	(11,074)
	22,030	22,030	63,727	41,697
Total Revenues	1,052,711	1,052,711	1,194,719	142,008
Expenditures				
Legislative:				
Council	5,000	5,000	4,600	400
General government:				
Mayor	6,650	6,650	5,346	1,304
City administrator	44,780	44,780	30,422	14,358
Election	3,200	3,200	1,540	1,660
Audit	6,300	6,300	6,200	100
Assessor	39,250	42,780	39,617	3,163
Attorney	12,740	12,740	9,698	3,042
Clerk	46,468	46,468	46,381	87
Board of review	1,250	1,250	744	506
Treasurer	37,389	37,389	35,335	2,054
City hall and grounds	18,255	18,255	15,225	3,030
Industrial park	1,000	2,760	2,760	0
Other	8,000	15,220	9,702	5,518
	225,282	237,792	202,970	34,822
Public safety:				
Police department	157,256	164,911	180,572	(15,661)
Fire department	49,338	51,936	58,412	(6,476)
Building inspection	29,637	31,301	30,264	1,037
Urban planning	5,400	6,250	6,250	0
House raising	83,186	83,186	30,462	52,724
	324,817	337,584	305,960	31,624

CITY OF LUNA PIER

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures(Concluded)				
Public works:				
Public works	\$123,022	\$123,022	\$122,625	\$397
Streetlights	26,000	26,000	25,535	465
Refuse collection	56,816	56,816	55,045	1,771
Water department	600	600	200	400
	<u>206,438</u>	<u>206,438</u>	<u>203,405</u>	<u>3,033</u>
Recreation and cultural:				
Recreation	14,460	16,178	17,668	(1,490)
Water tower park	10,483	13,052	11,716	1,336
Library	5,767	5,767	3,195	2,572
	<u>30,710</u>	<u>34,997</u>	<u>32,579</u>	<u>2,418</u>
Other:				
Insurance and bonds	54,000	60,086	59,336	750
Hospital and dental insurance	190,000	199,068	201,826	(2,758)
Life insurance	5,700	5,700	5,072	628
Pension	20,000	21,716	23,243	(1,527)
Social security	35,000	37,100	37,099	1
Unemployment and buy out	500	10,500	10,000	500
Workers compensation	6,000	6,000	3,710	2,290
Grand pump	7,500	7,500	459	7,041
Engineering	500	5,500	2,223	3,277
	<u>319,200</u>	<u>353,170</u>	<u>342,968</u>	<u>10,202</u>
Total Expenditures	<u>1,111,447</u>	<u>1,174,981</u>	<u>1,092,482</u>	<u>82,499</u>
Excess (Deficiency) of Revenues Over Expenditures	(58,736)	(122,270)	102,237	224,507
Other Financing Sources (Uses)				
Operating transfer out	<u>(85,200)</u>	<u>(99,628)</u>	<u>(97,894)</u>	<u>1,734</u>
Net Change in Fund Balances	(143,936)	(221,898)	4,343	226,241
Fund Balances - Beginning of year	<u>223,610</u>	<u>223,610</u>	<u>341,868</u>	<u>118,258</u>
Fund Balances - End of year	<u>\$79,674</u>	<u>\$1,712</u>	<u>\$346,211</u>	<u>\$344,499</u>

CITY OF LUNA PIER

*Major Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2004*

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
State grants:				
Gas and weight tax	\$59,939	\$59,939	\$63,802	\$3,863
Interest income	3,000	3,000	1,981	(1,019)
Other revenue	50	50	0	(50)
Total Revenues	62,989	62,989	65,783	2,794
Expenditures				
Public works:				
Construction	45,000	45,000	0	45,000
Routine maintenance	87,563	87,563	25,948	61,615
Traffic services	4,975	4,975	0	4,975
Winter maintenance	7,750	7,750	3,476	4,274
Administrative and engineering	2,475	2,475	2,575	(100)
Contingencies	235,955	235,955	0	235,955
Total Expenditures	383,718	383,718	31,999	351,719
Excess (Deficiency) of Revenues Over Expenditures	(320,729)	(320,729)	33,784	354,513
Other Financing Sources (Uses)				
Operating transfer in	100	100	0	(100)
Operating transfer out	(14,895)	(14,895)	(14,895)	0
Total Other Financing Sources (Uses)	(14,795)	(14,795)	(14,895)	(100)
Net Change in Fund Balances	(335,524)	(335,524)	18,889	354,413
Fund Balances - Beginning of year	335,524	335,524	339,284	3,760
Fund Balances - End of year	\$0	\$0	\$358,173	\$358,173

CITY OF LUNA PIER

Local Street Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
State grants:				
Gas and weight tax	\$36,410	\$36,410	\$38,948	\$2,538
Interest income	1,300	1,300	850	(450)
Total Revenues	37,710	37,710	39,798	2,088
Expenditures				
Public works:				
Construction	94,000	94,000	39,437	54,563
Routine maintenance	85,375	85,375	28,891	56,484
Traffic services	3,725	3,725	0	3,725
Winter maintenance	17,375	17,375	6,622	10,753
Administrative and engineering	3,200	3,200	3,300	(100)
Contingencies	66,873	66,873	0	66,873
Total Expenditures	270,548	270,548	78,250	192,298
Excess (Deficiency) of Revenues Over Expenditures	(232,838)	(232,838)	(38,452)	194,386
Other Financing Sources (Uses)				
Operating transfer in	108,585	108,585	51,306	(57,279)
Net Change in Fund Balances	(124,253)	(124,253)	12,854	137,107
Fund Balances - Beginning of year	124,253	124,253	138,603	14,350
Fund Balances - End of year	\$0	\$0	\$151,457	\$151,457

CITY OF LUNA PIER

*Special Road Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2004*

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest income	\$200	\$200	\$362	\$162
Other revenue	50	50	0	(50)
Total Revenues	250	250	362	112
Expenditures				
Public works:				
Administrative and engineering	500	500	500	0
Contingencies	1,319	1,319	0	1,319
Total Expenditures	1,819	1,819	500	1,319
Excess (Deficiency) of Revenues Over Expenditures	(1,569)	(1,569)	(138)	1,431
Other Financing Sources (Uses)				
Operating transfer out	(93,600)	(93,600)	(36,411)	57,189
Net Change in Fund Balances	(95,169)	(95,169)	(36,549)	58,620
Fund Balances - Beginning of year	95,169	95,169	95,639	470
Fund Balances - End of year	\$0	\$0	\$59,090	\$59,090

CITY OF LUNA PIER

Community Development Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Interest income:				
Investments	\$2,000	\$2,000	\$1,145	(\$855)
Loans	1,100	1,100	1,130	30
Total Revenues	3,100	3,100	2,275	(825)
Expenditures				
General government:				
Administration	16,190	16,190	16,028	162
Capital outlay	17,000	17,000	0	17,000
Total Expenditures	33,190	33,190	16,028	17,162
Net Change in Fund Balances	(30,090)	(30,090)	(13,753)	16,337
Fund Balances - Beginning of year	341,097	341,097	344,690	3,593
Fund Balances - End of year	<u>\$311,007</u>	<u>\$311,007</u>	<u>\$330,937</u>	<u>\$19,930</u>

CITY OF LUNA PIER

*Debt Retirement Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2004*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	
Revenues				
Charges for services:				
Water usage charge	\$10,909	\$10,909	\$11,907	\$998
Interest income	<u>50</u>	<u>50</u>	<u>18</u>	<u>(32)</u>
Total Revenues	10,959	10,959	11,925	966
Expenditures				
General government:				
Audit fees	700	700	700	0
Contingency	<u>3,401</u>	<u>3,401</u>	<u>0</u>	<u>3,401</u>
	4,101	4,101	700	3,401
Debt service:				
Principal	9,950	9,950	9,950	0
Interest	1,918	1,918	1,918	0
Fees	<u>300</u>	<u>300</u>	<u>40</u>	<u>260</u>
	12,168	12,168	11,908	260
Total Expenditures	16,269	16,269	12,608	3,661
Net Change in Fund Balances	(5,310)	(5,310)	(683)	4,627
Fund Balances - Beginning of year	<u>5,310</u>	<u>5,310</u>	<u>5,756</u>	<u>446</u>
Fund Balances - End of year	<u>\$0</u>	<u>\$0</u>	<u>\$5,073</u>	<u>\$5,073</u>

CITY OF LUNA PIER

*Flood Control Facilities Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2004*

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest income	\$3,000	\$3,000	\$2,131	(\$869)
Total Revenues	3,000	3,000	2,131	(869)
Expenditures				
Public works:				
Dike maintenance	150,000	150,000	21,360	128,640
Emergency maintenance	225,000	225,000	0	225,000
Engineering fees	500	500	8,739	(8,239)
Attorney fees	500	500	0	500
Miscellaneous	500	500	0	500
Contingency	11,011	11,011	0	11,011
Total Expenditures	387,511	387,511	30,099	357,412
Net Change in Fund Balances	(384,511)	(384,511)	(27,968)	356,543
Fund Balances - Beginning of year	384,511	384,511	385,860	1,349
Fund Balances - End of year	\$0	\$0	\$357,892	\$357,892

CITY OF LUNA PIER

*Fire Millage Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2004*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues				
Taxes:				
Property taxes	\$83,749	\$83,749	\$83,587	(\$162)
Payment in lieu of taxes	100	100	1,830	1,730
Penalties and interest	50	50	160	110
	<u>83,899</u>	<u>83,899</u>	<u>85,577</u>	<u>1,678</u>
Interest income	50	50	308	258
Total Revenues	83,949	83,949	85,885	1,936
Expenditures				
Public safety:				
Fire department				
Capital outlay	83,000	83,000	334,722	(251,722)
Miscellaneous	0	0	7	(7)
	<u>83,000</u>	<u>83,000</u>	<u>334,729</u>	<u>(251,729)</u>
Debt service:				
Principal	0	0	81,855	(81,855)
Interest	0	0	645	(645)
	<u>0</u>	<u>0</u>	<u>82,500</u>	<u>(82,500)</u>
Total Expenditures	83,000	83,000	417,229	(334,229)
Excess (Deficiency) of Revenues Over Expenditures	949	949	(331,344)	(332,293)
Other Financing Sources(Uses)				
Proceeds from loan	0	0	333,815	333,815
Net Changes in Fund Balances	949	949	2,471	1,522
Fund Balances - Beginning of year	0	0	0	0
Fund Balances - End of year	<u>\$949</u>	<u>\$949</u>	<u>\$2,471</u>	<u>\$1,522</u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF LUNA PIER

*Tax Collection Agency Fund
Statement of Changes in Assets and Liabilities
June 30, 2004*

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Assets				
Cash	<u>\$1,000</u>	<u>\$3,694,132</u>	<u>\$3,694,132</u>	<u>\$1,000</u>
Liabilities				
Due to other funds	\$1,000	\$991,986	\$991,986	\$1,000
Due to other governmental units	<u>0</u>	<u>2,702,146</u>	<u>2,702,146</u>	<u>0</u>
Total Liabilities	<u>\$1,000</u>	<u>\$3,694,132</u>	<u>\$3,694,132</u>	<u>\$1,000</u>

CITY OF LUNA PIER

Waste Water Treatment Plant Fund Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets Years Ended June 30, 2004 and 2003

	2004	2003
Operating Revenues		
Charges for services:		
Sewer use charge - Luna Pier	\$129,298	\$126,598
Sewer use charge - LaSalle Township	49,404	49,789
User fees - Mason School	2,800	2,000
	181,502	178,387
Permits	5,220	225
Penalties	751	1,448
	187,473	180,060
Operating Expenses		
Sewer processing and maintenance:		
Salaries	104,118	117,777
Payroll taxes	7,965	9,010
Workers compensation	2,121	1,950
Pension	5,999	7,783
Hospitalization insurance	35,761	29,099
Life Insurance	1,027	1,366
Insurance	12,364	13,909
Supplies and chemicals	20,979	19,552
Contracted services	25,813	20,504
Utilities and telephone	22,065	23,065
Maintenance	15,437	8,814
Schooling	414	262
Miscellaneous	742	772
Depreciation	58,488	72,565
	313,293	326,428
Administration:		
Salaries	3,350	3,350
Fringe benefits	837	837
Audit fees	1,700	1,700
	5,887	5,887
	319,180	332,315
Net Operating Income (Loss)	(131,707)	(152,255)
Non-Operating Revenues (Expenses)		
Property taxes	0	20,045
Payment in lieu of taxes	0	191
Interest income	591	1,147
	591	21,383
Net Income (Loss) Before Transfers	(131,116)	(130,872)
Transfers in	97,894	101,121
Change in Net Assets	(33,222)	(29,751)
Net Assets - Beginning of year	2,192,460	2,222,211
Net Assets - End of year	\$2,159,238	\$2,192,460

FEDERAL FINANCIAL ASSISTANCE PROGRAMS

CITY OF LUNA PIER

*Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004*

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>
<u>Federal Emergency Management Agency</u>		
Emergency Preparedness and Response Directorate Grant		
Assistance to Firefighters Grant - EMW-2003-FG-11196	83.554	\$19,440
Passed through the Michigan State Police, Emergency Management Division:		
Hazard Mitigation Grant Program - FEMA-1226-DR-MI	83.548	420,000
Hazard Mitigation Grant Program - FEMA-1346-DR-MI	83.548	<u>18,750</u>
Total passed through the Michigan State Police, Emergency Management Division		<u>438,750</u>
Total Federal Emergency Management Agency		458,190
<u>U.S. Department of Justice</u>		
Public Safety Partnership and Community Policing Grants (COPS) - 2001UMWX0110	16.710	<u>115,534</u>
Total Federal Financial Assistance		<u><u>\$573,724</u></u>

<u>Accrued (Deferred) Revenue July 1, 2003</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts</u>	<u>Accrued (Deferred) Revenue June 30, 2004</u>
\$0	\$0	\$19,440	\$19,440	\$0
(81,186)	128,813	30,000	(35,760)	(15,426)
<u>10,314</u>	<u>16,539</u>	<u>0</u>	<u>10,314</u>	<u>0</u>
<u>(70,872)</u>	<u>145,352</u>	<u>30,000</u>	<u>(25,446)</u>	<u>(15,426)</u>
(70,872)	145,352	49,440	(6,006)	(15,426)
<u>6,301</u>	<u>61,446</u>	<u>28,916</u>	<u>26,604</u>	<u>8,613</u>
<u>(\$64,571)</u>	<u>\$206,798</u>	<u>\$78,356</u>	<u>\$20,598</u>	<u>(\$6,813)</u>

CITY OF LUNA PIER

Notes to Schedule of Expenditures of Federal Awards *Year Ended June 30, 2004*

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Luna Pier and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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Mayor and City Council
City of Luna Pier
Monroe County, Michigan

Report of Comments and Recommendations

Our audit of the financial statements of the City of Luna Pier for the fiscal year ended June 30, 2004, was made in accordance with auditing standards generally accepted in the United States of America. These standards require, in addition to obtaining competent evidential matter through inspection, observation, inquiry and confirmation, that we determine that existing internal control, accounting procedures, and accounting records are adequate to allow us to express an opinion on the financial statements of the City.

As a result of our audit, we do not have any comments or recommendations that should be brought to the attention of the City Council. However, we would like to note that the City of Luna Pier implemented GASB No. 34 for the fiscal year ending June 30, 2004. This new reporting model created new financial statements and has a new section entitled *Management's Discussion and Analysis* which is a narrative introduction, an overview, and an analysis of the current year activity.

We appreciate the cooperation and courtesy extended to us by the officials and employees of the City during the audit engagement. We are encouraged by the City's efforts to improve and maintain a sound internal accounting control system and by the efficiency of those people involved. It is our pleasure to have been of service to the City of Luna Pier.

Very truly yours,

October 19, 2004